HOUSE FISCAL AGENCY

MEMORANDUM

DATE: February 29, 2008

TO: Interested Parties

FROM: William E. Hamilton

RE: Aeronautics Capital Outlay Program

Background

The State of Michigan provides support to Michigan airports in two separate budgets. The state Transportation budget provides funding for the Michigan Department of Transportation's Aeronautics administration and regulatory functions, Aeronautics debt service, and the Aeronautics Air Service Program (a grant program for certain commercial air service airports).[1] Direct support for airport capital projects is provided in state Capital Outlay budgets.

The primary purpose of the Aeronautics portion of the Capital Outlay budget is to provide state spending authority for the Airport Improvement Program (AIP).[2] The AIP is a federal program of capital assistance to eligible state airports. The program is effectively a pass-through program; federal funds are made available to the state of Michigan for eligible projects. After a review and approval process, grants are awarded by the State Aeronautics Commission for eligible projects – primarily projects at local airports.[3] Even thought the program is funded primarily with federal funds, without the state appropriation there would be no authority for the state to expend program funds.

The appropriation is supported by federal AIP funds, as well as state and local matching funds. In addition to federal, state, and local revenue, each fiscal year from FY 2002-03 through FY 2006-07, $12.0 million in bond proceeds were appropriated for the Aeronautics capital program – $60.0 million in total. This Aeronautics bond program was designated as "ASAP." See Appendix A for a history of Aeronautics Capital Outlay appropriations.

Airport Improvement Program (AIP)

The Catalog of Federal Domestic Assistance (CFDA) indicates that "*The objective of the Airport Improvement Program is to assist sponsors, owners, or operators, of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.*"

Congressional Research Service Issue Brief IB10026 describes the Airport Improvement Program as follows: "*The Airport Improvement Program (AIP) has provided federal grants for airport development and planning since the passage of the Airport and Airway Improvement Act of 1982 (P.L. 97-248). AIP funding is usually spent on projects that support aircraft operations including runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is supported by user fees and fuel taxes.*"

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[1] "Aeronautics" in this memo refers to programs of the Aeronautics Division within the Michigan Department of Transportation's Bureau of Aeronautics and Freight Services, under the authority of the State Aeronautics Code.
[2] Prior to FY 2001-02, the Capital Outlay appropriation line item was simply designated "Airport Improvement Program." In the FY 2001-02 and FY 2002-03 Capital Outlay budgets the designation "ASAP" was also used. Starting in FY 2003-04, the Capital Outlay Aeronautics appropriation line item was designated "Airport safety, protection, and improvement." Regardless of the name change, the program authorized by the appropriation is essentially unchanged; the program represents almost exclusively AIP projects.
[3] The eligible airports are almost entirely owned by local units of government or are established as separate local airport authorities. There are only six state-owned airports.

Eligible Airports – Of the 236 "Public Use" airports in the state, only a 120 are eligible to receive state assistance as "General Utility" or "Air Carrier" airports as defined by the State Aeronautics Code. Of these, only 95 are on the National Plan of Integrated Airport Systems, (NPIAS), and thus eligible for federal aid under the Airport Improvement Program.

The ASAP Bond Program

In February 2002, the Engler administration, as part of its FY 2002-03 budget presentation, proposed a five-year, $1.1 billion, "Airport Safety and Protection (ASAP) Plan." The plan involved a five-year program of capital improvements focused on safety and security at Michigan airports. The program was essentially the same as the previous Aeronautics capital program. The primary difference was the use of bond financing to match federal funds.

Funding for the plan was to come from a combination of federal funds, local funds, and up to $60.0 million from state bond proceeds, described in more detail below. Repayment of the ASAP bonds was to be made from an earmark of Airport Parking Tax revenue made in HB 4454 (PA 680 of 2002). In effect, legislative approval of HB 4454, as well as approval of appropriations bills HB 4343(PA 530 of 2002) and SB 1099 (PA 518 of 2002) constituted legislative authorization for the program.

Bond Financing – The use of bond financing as part of the ASAP program was in response to a reduction in available State Aeronautics Fund (SAF) and General Fund/General Purpose (GF/GP) revenue. SAF revenue, which is derived primarily from aviation fuel taxes, had been used to support the AIP in the Capital Outlay appropriations, and for other aeronautics programs in the state Transportation budget. Revenue from those aviation fuel taxes had been in decline for several years, in particular after the events of September 11, 2001. GF/GP revenue had also been appropriated in Capital Outlay budgets to match federal AIP funds. The ASAP program was initiated primarily in response department concern that there would not be sufficient state revenue to match available federal funds for Aeronautics capital programs or to meet the demonstrated capital needs of Michigan airports. See Appendix B and Chart 1 for a history of SAF revenue.

The ASAP bond program, as proposed, involved the sale of up to $60.0 million in Comprehensive Transportation Fund (CTF) bonds to be used to match available federal funds. The ASAP bonds were to be secured by CTF revenue, rather than SAF revenue, because the State Transportation Commission has no statutory authority to sell SAF revenue bonds. Debt service on the bonds would be made from the CTF; the SAF would then reimburse the CTF.

HB 4454, as enacted, earmarked $6.0 million in Airport Parking Tax revenue each fiscal year to the SAF (by way of the Airport Parking Tax Fund created in the Act). The specific language of HB 4454 is as follows:

"*…the state treasurer shall make a distribution from the fund in the following order of priority:*
To the state aeronautics fund created in section 34 of the aeronautics code of the state of Michigan, 1945 PA 327, MCL 259.34, an amount that equals a total of $6,000,000.00 per state fiscal year. The funds distributed subject to this subdivision shall be used exclusively for safety and security projects at state airports, including reimbursement to the comprehensive transportation fund of amounts used to pay principal and interest on bonds issued on or before December 31, 2007 by the state transportation commission under section 18b of 1951 PA 51, MCL 247.668b, to provide the matching funds by this state for federal funds to be used for safety and security at state airports."

In April 2003, the State Transportation Commission authorized the sale of up to $38.0 million in CTF bonds, and in June 2003, the department issued $35.0 million in CTF bonds under this authorization. The department identified $24.0 million from the bond proceeds as related to the ASAP program. The bond project list included $60.0 million for ASAP airport improvement projects.[4] On March 30, 2006, the State Transportation Commission authorized the sale of up to $100 million in CTF bonds. The actual bond sale, generating proceeds of $55 million, was completed in June 2006. As part of this sale, the department identified $36.0 million as the second and final part of the $60.0 million ASAP bond program.

It was originally anticipated that of the annual $6.0 million earmark from the Airport Parking Tax, $5.0 million would be used for ASAP (CTF) debt service, and $1.0 million to other Aeronautics safety and security projects not eligible for bond financing. Actual debt service is currently $3.4 million annually, leaving $1.6 million available for the capital program.

Under provisions of HB 4454, as enacted, authority for the Airport Parking Tax, and thus $6.0 million annual earmark to the SAF, would sunset on December 30, 2007 or when all bonds authorized under the act had been retired, whichever date was later. See HFA analysis of HB 4454 (2001-2002 Session). Current bond schedules provide for the bonds to be retired in 2031.

Pubic Act 135 of 2006 – The ASAP program was modified in 2006 to allow the department to use some Airport Parking Tax/SAF revenue for non-federal participating projects. The department asked for this modification because in 2006 there was sufficient SAF revenue to match available federal AIP program funds. This was due, in part, to the reauthorization of the AIP program in *Vision 100* (Public Law 108-176) which increased the federal share from 90% to 95% of project cost and effectively reduced the SAF share of AIP project cost from 5% to 2.5% of project cost.[5] Enrolled House Bill 5154, enacted as 2006 PA 135, expanded the allowable uses of the SAF's share of Airport Parking Tax revenue to include non-federal participating projects, i.e. projects funded exclusively with SAF and local matching funds. The use of Airport Parking Tax funds was still limited to safety and security projects at Michigan airports.

Current Status

Airport Improvement Program – In December 2003, President Bush signed into law *Vision 100 - Century of Flight Authorization Act of 2003* (Public Law 108-176) which reauthorized federal aeronautics programs, including the AIP, through September 30, 2007. Authority for the federal AIP expired on September 30, 2007 and Congress has not yet passed a long-term reauthorization. However, according the February 15, 2008 AASHTO Journal, in February 2008 "*Congress passed a short-term extension of Federal Aviation Administration programs through June 30, allowing for the collection of fuel and ticket taxes so expenditures for the Airport Improvement Program can be made from the Aviation Trust Fund.*"

State Spending Authority – In February 2008, the Governor presented both the FY 2007-08 and the FY 2008-09 Capital Outlay budget requests. The FY 2007-08 request included $183.2 million for Aeronautics capital projects; the FY 2008-09 request was for $167.5 million.

Representatives of airport owners have indicted that failure to enact the Aeronautics portion of the FY 2007-08 Capital Outlay budget by mid-March 2008 may delay the start of some Aeronautics capital projects; some projects originally planned for the 2008 construction season may be delayed to the 2009 construction season. The department has indicated that a delay may also jeopardized state access to some federal discretionary funds.

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[4] The projects on the bond project list represent the pool of projects for which the bond proceeds may be used. Proceeds from the sales of notes or bonds can be used only for projects included in the note or bond resolution project list. However, the proceeds are not earmarked for any particular project or projects on the list. Some of the projects on the list may be constructed using other state-restricted or federal aid revenue sources.

[5] The remaining non-federal share of project cost is borne by the airport owner. These funds are identified as "local revenue" in Capital Outlay appropriations.

State Aeronautics Fund (SAF) – The State Aeronautics Fund is the primary state revenue source used to match federal AIP funding the Capital Outlay budget. The SAF is a state-restricted fund supported primarily by aviation fuel taxes. The tax rate of 3 cents per gallon of aviation fuel is unchanged since first instituted in 1931. Actual revenue generated by the tax has fallen in recent years. Actual aviation fuel tax revenue for FY 2005-06, just under $6.0 million, was lower than at any time during the previous 9 years. Actual revenue for FY 2006-07 rose slightly to $6.3 million.

Whether there will be sufficient SAF revenue to match future federal AIP grants will depend both on SAF revenue and the provisions of the reauthorized federal program. If the reauthorized AIP program requires only a 5% non-federal match, fewer SAF matching funds will be required than if the program requires a higher non-federal match.

Appendix A

Michigan Capital Outlay Appropriations for Aeronautics
Summary by Fiscal Year 1997-2009

Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Exec. Rec 2008	Exec. Rec. 2009
Enacted Program by Fund Source													
Federal funds	61,442,500	65,511,000	65,511,000	83,069,000	98,976,000	138,722,000	162,200,000	160,000,000	160,000,000	125,000,000	137,254,300	162,867,600	133,024,628
State													
GF/GP		19,000,000	10,000,000	14,900,000	21,300,000	16,400,000					5,000,000	0	0
SAF	2,000,000	4,000,000	4,000,000	4,000,000	2,000,000	2,000,000	7,000,000	6,100,000	7,256,200	734,400	4,554,600	5,114,300	3,792,867
CTF Revenue						9,600,000							
ASAP/CTF Bond Proceeds							12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	0	0
CTF Bond Proceeds							12,000,000						
Local	26,067,500	23,129,000	23,129,000	12,871,000	18,483,200	41,000,000	43,532,000	22,789,600	22,790,000	20,000,000	12,648,300	15,209,400	30,674,233
Total Appropriation	**$89,510,000**	**$111,640,000**	**$102,640,000**	**$114,840,000**	**$140,759,200**	**$207,722,000**	**$236,732,000**	**$200,889,600**	**$202,046,200**	**$157,734,400**	**$171,457,200**	**$183,191,300**	**$167,491,728**
Line Item Description													
AIP	89,510,000	111,640,000	102,640,000	114,840,000	140,759,200	152,722,000	219,732,000						
ASAP						55,000,000	17,000,000						
Airport safety, protection, and improvement								200,889,600	202,046,200	157,734,400	166,457,200	183,191,300	167,491,728
Oscoda/Wurtsmith											5,000,000	0	0

Notes:
Between FY 1997-98 and FY 2002-03, the above figures included $155.2 million in appropriations specifically for the Midfield Terminal at Detroit/Wayne County Metro Airport, and $10.0 million related to Willow Run Airport.
The $5.0 million GF/GP appropriation in FY 2006-07 was specific to Oscoda/Wurtsmith maintenance hanger.

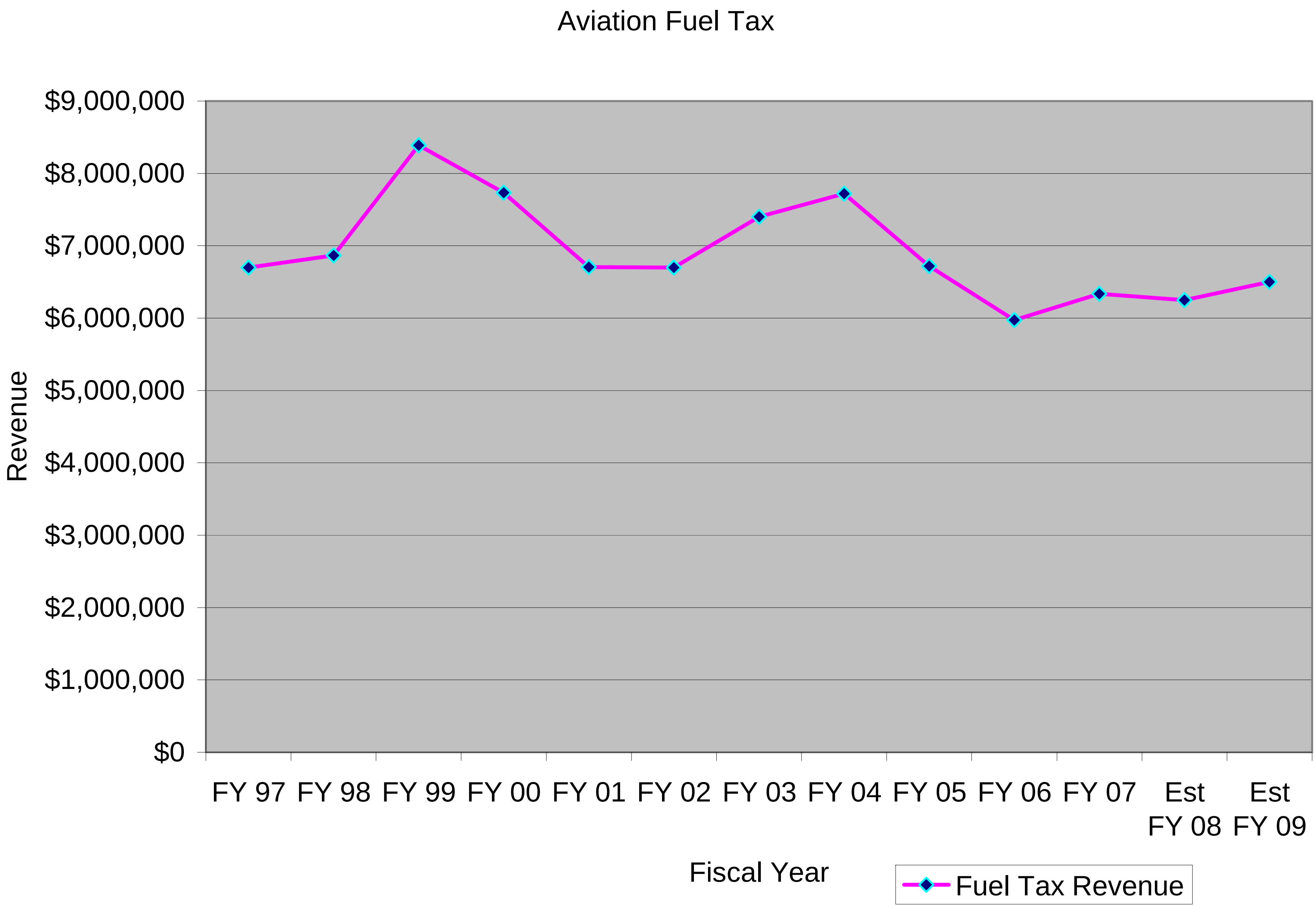
Appendix B

STATE AERONAUTICS FUND
APPROPRIATION & REVENUE HISTORY
FY 1996/97 through 2008/09

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Exec. Rec. 2007-08	Exec. Rec. 2008-09
Appropriations													
Airport Improvement/Aviation Services	6,716,300	7,570,000	7,548,500	6,897,100	6,773,200	5,973,200	5,530,600	5,918,900	7,150,800	7,486,500	6,993,500	7,110,500	7,140,900
Air Service Program	1,000,000	1,000,000	1,500,000	1,000,000	1,000,000	1,000,000	300,000	600,000	1,000,000	1,000,000	700,000	700,000	700,000
IDGs, Administration, Planning	1,226,500	1,224,400	1,320,500	1,158,900	1,270,200	1,373,300	1,277,200	1,258,100	1,253,200	958,900	1,633,100	1,419,900	1,155,500
Debt Service							0	1,786,600	2,672,600	4,669,300	5,607,400	3,474,600	3,430,900
Subtotal - Transportation	8,942,800	9,794,400	10,369,000	9,056,000	9,043,400	8,346,500	7,107,800	9,563,600	12,076,600	14,114,700	14,934,000	12,705,000	12,427,300
Capital Outlay (SAF only)	2,000,000	4,000,000	4,000,000	4,000,000	2,000,000	2,000,000	7,000,000	6,100,000	7,256,200	734,400	4,554,600	5,114,300	3,792,867
Total SAF Appropriation	$10,942,800	$13,794,400	$14,369,000	$13,056,000	$11,043,400	$10,346,500	$14,107,800	$15,663,600	$19,332,800	$14,849,100	$19,488,600	$17,819,300	$16,220,167
Revenue - Aeronautics Taxes and Fees	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***actual***	***estimate***	***estimate***
Aviation Fuel	6,698,560	6,867,759	8,389,628	7,732,150	6,705,528	6,698,836	7,401,938	7,721,014	6,718,713	5,974,483	6,334,663	6,250,000	6,500,000
Aircraft registrations	178,356	74,784	243,054	288,686	304,533	274,779	281,044	302,406	287,985	296,514	303,958	296,000	302,000
State-owned plane rental	430,486	423,774	542,785	614,781	585,666	683,474	394,986	289,353	281,363	325,736	301,942	335,000	312,000
Other	1,548,518	1,663,797	1,361,446	2,991,304	994,654	831,258	777,172	641,628	1,111,768	1,262,361	4,162,624	770,800	882,000
Subtotal SAF Revenue	$8,855,920	$9,030,114	$10,536,913	$11,626,921	$8,590,381	$8,488,347	$8,855,140	$8,954,401	$8,399,829	$7,859,094	$11,103,187	$7,651,800	$7,996,000
Airport Parking Tax							6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Total SAF Revenue	$8,855,920	$9,030,114	$10,536,913	$11,626,921	$8,590,381	$8,488,347	$14,855,140	$14,954,401	$14,399,829	$13,859,094	$17,103,187	$13,651,800	$13,996,000

Source: Michigan Department of Tranportation data reconciled to MAIN accounting records. FY 2007-08 and 2008-09 revenue estimates from the Michigan Department of Treasury.

Chart 1


Aviation Fuel Tax
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
Revenue
FY 97
FY 98
FY 99
FY 00
FY 01
FY 02
FY 03
FY 04
FY 05
FY 06
FY 07
Est FY 08
Est FY 09
Fiscal Year
Fuel Tax Revenue